



MANAGEMENT'S DISCUSSION AND ANALYSIS AND INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2014 and for the three months ended March 31, 2014 and 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with Tourmaline's unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2014 and the consolidated financial statements for the year ended December 31, 2013. Both the consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated May 7, 2014.

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") and sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("GAAP") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are expressed in Canadian currency, unless otherwise noted.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See "Non-GAAP Financial Measures" for information regarding the following non-GAAP financial measures used in this MD&A: "cash flow", "operating netback", "working capital (adjusted for the fair value of financial instruments)", "net debt", "adjusted EBITDA", "senior debt", "total debt", and "total capitalization".

Additional information relating to Tourmaline can be found at www.sedar.com.

Forward-Looking Statements - Certain information regarding Tourmaline set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Tourmaline's internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, expenses, production, cash flow and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Tourmaline believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Tourmaline's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Tourmaline.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues and cash flow from, crude oil, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, NGL and natural gas properties; crude oil, NGL and natural gas production levels and product mix; Tourmaline's future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax laws; and estimated tax pool balances. In addition, statements relating to "reserves" are deemed to be forward-looking

statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; the receipt of applicable approvals; and the other risks considered under "Risk Factors" in Tourmaline's most recent annual information form available at www.sedar.com.

With respect to forward-looking statements contained in this MD&A, Tourmaline has made assumptions regarding: future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Tourmaline's future operations and such information may not be appropriate for other purposes. Tourmaline's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Boe Conversions - Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrel of oil equivalents (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

PRODUCTION

	Three Months Ended March 31,		
	2014	2013	Change
Natural gas (mcf/d)	525,999	367,287	43%
Oil (bbl/d)	8,690	5,688	53%
NGL (bbl/d)	6,207	1,733	258%
Oil equivalent (boe/d)	102,563	68,636	49%

Production for the three months ended March 31, 2014 averaged 102,563 boe/d, a 49% increase over the average production for the same quarter of 2013 of 68,636 boe/d. The Company's significant production growth, when compared to 2013, can be attributed to new wells that have been brought on-stream since March 31, 2013, as well as property acquisitions. Production was 85% natural gas weighted in the first quarter of 2014 compared to 89% natural gas weighted in the first quarter of 2013. The accelerated growth in oil and NGL production is the result of increased drilling in the Spirit River/Peace River High Charlie Lake oil plays, the additional incremental liquids recovered in the Wild River area via deep cut processing, which began in late 2013, and stronger than anticipated condensate recoveries from new wells tied-in in N.E.B.C.

Full-year average production guidance for 2014 remains unchanged at 120,000 boe/d (as disclosed in the Company's MD&A dated March 17, 2014).

REVENUE

(000s)	Three Months Ended March 31,		
	2014	2013	Change
Revenue from:			
Natural gas	\$ 254,762	\$ 115,709	120%
Oil and NGL	94,505	59,278	59%
Total revenue from natural gas, oil and NGL sales	\$ 349,267	\$ 174,987	100%

Revenue for the three months ended March 31, 2014 increased 100% to \$349.3 million from \$175.0 million for the same quarter of 2013. Revenue growth is consistent with the increase in production and strong growth in natural gas prices for the same periods, partially offset by weaker NGL prices. Revenue includes all petroleum, natural gas and NGL sales and realized gains on financial instruments.

TOURMALINE PRICES:

	Three Months Ended March 31,		
	2014	2013	Change
Natural gas (\$/mcf)	\$ 5.38	\$ 3.50	54%
Oil (\$/bbl)	\$ 94.17	\$ 94.96	(1)%
NGL (\$/bbl)	\$ 37.34	\$ 68.36	(45)%
Oil equivalent (\$/boe)	\$ 37.84	\$ 28.33	34%

BENCHMARK GAS AND OIL PRICES:

	Three Months Ended March 31,		
	2014	2013	Change
Natural gas			
NYMEX Henry Hub (USD\$/mcf)	\$ 4.72	\$ 3.48	36%
AECO (CAD\$/mcf)	\$ 5.59	\$ 3.20	75%
Oil			
NYMEX (USD\$/bbl)	\$ 98.61	\$ 94.36	5%
Edmonton Par (CAD\$/bbl)	\$ 99.85	\$ 88.55	13%

RECONCILIATION OF AECO INDEX TO TOURMALINE'S REALIZED GAS PRICES:

(\$/mcf)	Three Months Ended March 31,		
	2014	2013	Change
AECO index	\$ 5.59	\$ 3.20	75%
Heat/quality differential	0.39	0.27	44%
Realized gain (loss)	(0.60)	0.03	(2,100)%
Tourmaline realized natural gas price	\$ 5.38	\$ 3.50	54%

CURRENCY – EXCHANGE RATES:

	Three Months Ended March 31,		
	2014	2013	Change
CAD\$/USD\$	\$ 0.9067	\$ 0.9922	(9)%

The realized average natural gas price for the three months ended March 31, 2014 was \$5.38/mcf, which is 54% higher than the comparative period. The higher natural gas price reflects the higher AECO prices experienced during the quarter. Included in the realized price is a loss on commodity contracts in the first quarter of 2014 of \$28.5 million compared to a gain of \$2.5 million for the same period of the prior year. There has been an increased focus on hedging activities in an effort to obtain more predictable cash flows to support the larger capital budget and realize the benefit of the recent natural gas rally. As a result, a larger volume of natural gas has been subject to pricing per the commodity contracts in place, creating realized losses as the price of natural gas increases. Realized prices exclude the effect of unrealized gains or losses. Once these gains and losses are

realized they are included in the per-unit amounts. Partially offsetting the loss on commodity contracts was a 7% premium received due to the higher heat content (March 31, 2013 – 8%).

Realized crude oil prices were relatively unchanged while NGL prices decreased 45%, from \$68.36/bbl to \$37.34/bbl, for the three months ended March 31, 2014, compared to the same period of 2013. The proportion of ethane in the NGL mix, which is priced significantly lower than the other products, increased from approximately 9% in the first quarter of 2013 to 38% in the first quarter of 2014 due to deep cut processing in the Wild River area of Alberta, resulting in a corresponding decrease in the realized NGL pricing. The economics of the deep cut processing activities are favourable when compared to leaving the ethane in the natural gas stream.

ROYALTIES

(000s)	Three Months Ended March 31,	
	2014	2013
Natural gas	\$ 19,584	\$ 4,535
Oil and NGL	10,980	6,828
Total royalties	\$ 30,564	\$ 11,363
Royalties as a percentage of revenue	8.8%	6.5%

For the quarter ended March 31, 2014, the average effective royalty rate increased to 8.8% compared to 6.5% for the same quarter of 2013.

The Company continues to benefit from the New Well Royalty Reduction Program and the Natural Gas Deep Drilling Program in Alberta as well as the Deep Royalty Credit Program in British Columbia. The average effective royalty rate increased in 2014 over the same period of 2013 mainly due to increased natural gas prices, and the impact of some wells reaching production maximums or coming off royalty holidays.

The Company expects its royalty rate for 2014 to be approximately 10% as additional wells will no longer qualify for royalty incentive programs due to production maximums being reached and other wells coming off royalty holidays, thereby increasing the Company's overall royalty rate. The royalty rate is also sensitive to commodity prices, however, and as such, a change in commodity prices will impact the actual rate.

OTHER INCOME

(000s)	Three Months Ended March 31,		
	2014	2013	Change
Other income	\$ 4,899	\$ 1,319	271%

For the three months ended March 31, 2014, other income was \$4.9 million (three months ended March 31, 2013 - \$1.3 million), the majority of which relates to processing income. The increase in processing income is mainly due to fees charged to working interest partners on Tourmaline operated wells where gas is being processed through the Company-owned Banshee gas processing plant. Tourmaline has experienced a rapid growth in production volumes from wells in that area.

OPERATING EXPENSES

(000s) except per-unit amounts	Three Months Ended March 31,		
	2014	2013	Change
Operating expenses	\$ 45,489	\$ 26,367	73%
Per boe	\$ 4.93	\$ 4.27	15%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the first quarter of 2014, total operating expenses were \$45.5 million compared to \$26.4 million for the first quarter of 2013 reflecting increased costs relating to the growing production base.

On a per-boe basis, the costs increased 15% from \$4.27/boe for the first quarter of 2013 to \$4.93/boe in the first quarter of 2014. The production of oil and NGLs incurs higher per-unit operating costs compared to natural gas, therefore, as the Company's production profile becomes more heavily weighted to oil and NGLs, we anticipate an increase in per-unit operating expenses. In addition, Tourmaline has been actively growing production in the Spirit River area of Alberta and has been securing processing contracts in preparation for that growth, the result of which has been that take-or-pay fees were incurred on temporarily unutilized capacity, which will be accessed as the production in the area continues to grow. There has also been an increase in water and emulsion trucking and additional treating costs resulting from establishing temporary facilities in the expanded areas in which Tourmaline is operating. Once permanent oil, natural gas and water handling facilities are constructed in late 2014 and 2015, these higher costs are expected to decrease. The per-unit operating costs in the Wild River area have also increased as approximately 70 mmcfpd of natural gas has been processed through third-party fractionation facilities in an effort to recover more valuable natural gas liquids. The Company's operating expenses in the first quarter of 2014 include third-party processing, gathering, and compression fees of approximately \$12.3 million or 27% of total operating costs (March 31, 2013 - \$8.3 million or 31% of total operating costs).

The Company expects its full year 2014 operating costs to average approximately \$4.40/boe, which has increased from previous guidance of \$4.15/boe (as disclosed in the Company's MD&A dated March 17, 2014). Forecast operating costs have been increased to reflect the growth in oil and NGL production as well as additional costs for processing and fractionation of liquids extracted through deep cut facilities. The Company continues to invest capital in Company owned-and-operated plants in an effort to increase processing capacity and maintain its low operating cost structure. Actual costs per boe can change, however, depending on a number of factors including the Company's actual production levels.

TRANSPORTATION

(000s) except per-unit amounts	Three Months Ended March 31,		
	2014	2013	Change
Natural gas transportation	\$ 10,766	\$ 8,285	30%
Oil and NGL transportation	4,563	4,185	9%
Total transportation	\$ 15,329	\$ 12,470	23%
Per boe	\$ 1.66	\$ 2.02	(18)%

Transportation costs for the three months ended March 31, 2014 were \$15.3 million or \$1.66/boe (three months ended March 31, 2013 - \$12.5 million or \$2.02/boe, respectively). The increase in total transportation costs for the three months ended March 31, 2014 is a result of higher production volumes. Transportation costs in the first quarter of 2013 included charges for unutilized transportation. This charge is lower in 2014 with the increased production and is also reflected in a lower per-unit cost.

GENERAL & ADMINISTRATIVE EXPENSES (“G&A”)

(000s) except per-unit amounts	Three Months Ended March 31,		
	2014	2013	Change
G&A expenses	\$ 10,493	\$ 8,607	22%
Administrative and capital recovery	(827)	(414)	100%
Capitalized G&A	(4,356)	(3,252)	34%
Total G&A expenses	\$ 5,310	\$ 4,941	7%
Per boe	\$ 0.58	\$ 0.80	(28)%

G&A expenses for the first quarter of 2014 were \$5.3 million (\$0.58/boe) compared to \$4.9 million (\$0.80/boe) for the same quarter of the prior year. The increase in G&A expenses in 2014 compared to 2013 is primarily due to staff additions needed to manage the larger production, reserve and land base, as well as the higher active drilling rig count. The Company increased its staff count by approximately 30% from the first quarter of 2013 to the first quarter of 2014. The Company's G&A expenses per boe continue to trend downward as Tourmaline's production base continues to grow faster than its accompanying G&A costs.

G&A costs for 2014 are expected to be approximately \$0.60/boe. Actual costs per boe can change, however, depending on a number of factors including the Company's actual production levels.

SHARE-BASED PAYMENTS

(000s) except per-unit amounts	Three Months Ended March 31,	
	2014	2013
Share-based payments	\$ 13,402	\$ 7,180
Capitalized share-based payments	(6,701)	(3,590)
Total share-based payments	\$ 6,701	\$ 3,590
Per boe	\$ 0.73	\$ 0.58

The Company uses the fair value method for the determination of non-cash related share-based payments expense. During the first quarter of 2014, 375,000 stock options were granted to employees, officers, directors and key consultants at a weighted-average exercise price of \$46.97 and 1,146,475 options were exercised, bringing \$19.1 million of cash into treasury. The Company recognized \$6.7 million of share-based payments expense in the first quarter of 2014 compared to \$3.6 million in the first quarter of 2013. Share-based payments in the first quarter of 2014 are higher compared to the same period of 2013, which reflects the increased value attributed to the options and a higher number of options outstanding.

DEPLETION, DEPRECIATION AND AMORTIZATION (“DD&A”)

(000s) except per-unit amounts	Three Months Ended March 31,	
	2014	2013
Total depletion, depreciation and amortization	\$ 115,535	\$ 81,423
Less mineral lease expiries	(7,570)	(7,582)
Depletion, depreciation and amortization	\$ 107,965	\$ 73,841
Per boe	\$ 11.70	\$ 11.95

DD&A expense, net of mineral lease expiries, was \$108.0 million for the first quarter of 2014 compared to \$73.8 million for the same period of 2013 due to higher production volumes, as well as a larger capital asset base being depleted. The per-unit DD&A rate (excluding the impact of mineral lease expiries) of \$11.70/boe was slightly lower for the first quarter of 2014 versus the first quarter of 2013 (\$11.95/boe), reflecting strong reserve additions derived from Tourmaline’s exploration and production program.

Mineral lease expiries for the three months ended March 31, 2014 were \$7.6 million, which is consistent with the expiries in the same quarter of the prior year of \$7.6 million. Tourmaline expects to continue to see mineral lease expiries of a similar magnitude on a go-forward basis.

FINANCE EXPENSES

(000s)	Three Months Ended March 31,		
	2014	2013	Change
Interest expense	\$ 4,940	\$ 3,437	44%
Accretion expense	538	391	38%
Transaction costs on corporate and property acquisitions	–	670	–%
Total finance expenses	\$ 5,478	\$ 4,498	22%

Finance expenses are comprised of interest expense, accretion of provisions and transaction costs associated with corporate and property acquisitions. Finance expenses for the three months ended March 31, 2014 totalled \$5.5 million, which increased over 2013 first quarter finance expenses of \$4.5 million due to a higher average bank debt outstanding partially offset by a lower average effective interest rate. The average bank debt outstanding in the first quarter of 2014 was \$571.1 million (2013 - \$381.2 million), with an average effective interest rate of 3.06% (2013 – 3.29%).

DEFERRED INCOME TAXES

For the three months ended March 31, 2014, the provision for deferred income tax expense was \$33.0 million compared to an expense of \$19.6 million for the same period in 2013. The increase is consistent with the higher pre-tax earnings recorded in the first quarter of 2014 compared to the first quarter of 2013.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

(000s) except per-unit amounts	Three Months Ended March 31,		
	2014	2013	Change
Cash flow from operating activities	\$ 249,390	\$ 93,763	166%
Per share ⁽¹⁾	\$ 1.26	\$ 0.52	142%
Cash flow ⁽²⁾	\$ 252,587	\$ 116,599	117%
Per share ^{(1) (2)}	\$ 1.28	\$ 0.64	100%
Net earnings	\$ 89,868	\$ 52,184	72%
Per share ⁽¹⁾	\$ 0.45	\$ 0.29	55%
Operating netback per boe ⁽²⁾	\$ 27.94	\$ 20.20	38%

⁽¹⁾ Fully diluted

⁽²⁾ See "Non-GAAP Financial Measures"

Cash flow for the three months ended March 31, 2014 was \$252.6 million or \$1.28 per diluted share compared to \$116.6 million or \$0.64 per diluted share for the same period of 2013. The increase in cash flow in 2014 reflects higher natural gas prices over 2013, as well as increased production. After-tax earnings for the three months ended March 31, 2014 are higher at \$89.9 million (\$0.45 per diluted share) compared to \$52.2 million (\$0.29 per diluted share) for the same period of 2013, due mainly to higher natural gas prices and increased production.

CAPITAL EXPENDITURES

(000s)	Three Months Ended March 31,	
	2014	2013
Land and seismic	\$ 29,754	\$ 8,505
Drilling and completions	281,149	181,028
Facilities	150,433	73,135
Property acquisitions	585	2,450
Property dispositions	–	(77,945)
Other	4,475	3,290
Total cash capital expenditures	\$ 466,396	\$ 190,463

During the first quarter of 2014, the Company invested \$466.4 million of cash consideration compared to \$190.5 million, net of dispositions, for the same period of 2013. Expenditures on exploration and production were \$461.3 million compared to \$262.7 million for the same quarter of 2013, which is consistent with the Company's aggressive growth strategy. The increase in drilling and completion costs reflects the higher rig count from 10 drilling rigs in the first quarter of 2013 to 17 drilling rigs in the first quarter of 2014. The growth in facilities expenditures includes work on the expansion of the facility at West Doe and a new sour gas processing facility in Spirit River (both planned for Q3 2014 start-up), an oil battery at Mulligan in the Spirit River area, as well as several large pipeline lateral projects intended to optimize transportation of, and related logistics for getting, natural gas to Tourmaline operated processing facilities.

The following table summarizes the drill, complete and tie-in activities for the period:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Gross	Net	Gross	Net
Drilled	40	36.15	27	25.21
Completed	45	40.45	32	29.49
Tied-in	27	21.62	14	13.52

LIQUIDITY AND CAPITAL RESOURCES

On February 12, 2014, the Company issued 4.615 million common shares at a price of \$47.50 per share for total gross proceeds of \$219.2 million. The proceeds were used to temporarily reduce bank debt and will be used to fund the Company's remaining 2014 exploration and development program.

On April 24, 2014, the Company closed the acquisition of Santonia Energy Inc. ("Santonia") with the issuance of 3.228 million Tourmaline shares with a closing price on that date of \$54.94 per Tourmaline share, for consideration of \$177.4 million.

The Company has a covenant-based bank credit facility in place with a syndicate of bankers, the details of which are described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2013. The facility has a limit of \$900 million with an initial maturity of June 2016. The Company is currently in discussions with the syndicate of lenders as part of its annual lending review with the aim of significantly increasing the size of the bank credit facility.

As at March 31, 2014, the Company had negative working capital of \$248.1 million, after adjusting for the fair value of financial instruments (the unadjusted working capital deficiency was \$255.2 million) (December 31, 2013 – \$242.6 million and \$245.3 million, respectively). As at March 31, 2014, the Company had \$570.5 million drawn on its credit facility (December 31, 2013 - \$590.3 million), and net debt was \$818.6 million (December 31, 2013 - \$832.9 million). Management believes the Company has sufficient liquidity and capital resources to fund the remainder of its 2014 exploration and development programs through expected cash flow from operations and its unutilized bank credit facility.

SHARES AND STOCK OPTIONS OUTSTANDING

As at May 7, 2014, the Company has 199,929,029 common shares outstanding and 14,104,029 stock options granted and outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

Payments Due by Year (000s)	1 Year	2-3 Years	4-5 Years	> 5 Years	Total
Operating leases	\$ 3,698	\$ 9,865	\$ 10,162	\$ 4,934	\$ 28,659
Firm transportation and processing agreements	69,884	312,506	178,758	394,998	956,146
Bank debt ⁽¹⁾	–	612,866	–	–	612,866
	\$ 73,582	\$ 935,237	\$ 188,920	\$ 399,932	\$ 1,597,671

⁽¹⁾ Includes interest expense at an annual rate of 3.06% being the rate applicable to outstanding bank debt at March 31, 2014.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease arrangements, all of which are reflected in the commitments and contractual obligations table, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2013.

As at March 31, 2014, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. Such financial derivative commodity contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the consolidated statement of income and comprehensive income. The contracts that the Company has in place at March 31, 2014 are summarized and disclosed in note 5 of the Company's interim condensed consolidated financial statements for the three months ended March 31, 2014 and 2013.

The following table provides a summary of the unrealized losses on financial instruments for the three months ended March 31, 2014 and 2013:

(000s)	Three Months Ended March 31,	
	2014	2013
Unrealized loss on financial instruments	\$ (6,266)	\$ (3,819)

The Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at March 31, 2014 have been summarized and disclosed in note 3 of the Company's interim condensed consolidated financial statements for the three months ended March 31, 2014 and 2013.

Financial derivative and physical delivery contracts entered into subsequent to March 31, 2014 are detailed in note 3 of the Company's interim condensed consolidated financial statements for the three months ended March 31, 2014 and 2013.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company's use of estimates and judgments in preparing the interim condensed consolidated financial statements is discussed in note 1 of the consolidated financial statements for the year ended December 31, 2013.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109 Certification, to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by National Instrument 52-109, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes in the Company's DC&P or ICFR during the period beginning on January 1, 2014 and ending on March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

BUSINESS RISKS AND UNCERTAINTIES

Tourmaline monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Tourmaline maintains a level of liability, property and business interruption insurance which is believed to be adequate for Tourmaline's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

See "Forward-Looking Statements" in this MD&A and "Risk Factors" in Tourmaline's most recent annual information form for additional information regarding the risks to which Tourmaline and its business and operations are subject.

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the conduct of the Company's business more expensive or prevent the Company from conducting its business as currently conducted. Tourmaline focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

NON-GAAP FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms "cash flow", "operating netback", "working capital (adjusted for the fair value of financial instruments)", "net debt", "adjusted EBITDA", "senior debt", "total debt", and "total capitalization" which are not recognized measures under GAAP, and do not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of these terms may not be

comparable to similarly defined measures presented by other companies. Management uses the terms “cash flow”, “operating netback”, “working capital (adjusted for the fair value of financial instruments)” and “net debt”, for its own performance measures and to provide shareholders and potential investors with a measurement of the Company’s efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-GAAP measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of the Company’s performance. The terms “adjusted EBITDA”, “senior debt”, “total debt”, and “total capitalization” are not used by management in measuring performance but are used in the financial covenants under the Company’s credit facility. Under the Company’s credit facility “adjusted EBITDA” means generally net income or loss, excluding extraordinary items, plus interest expense and income taxes and adjusted for non-cash items and gains or losses on dispositions, “senior debt” means generally the indebtedness, liabilities and obligations of the Company to the lenders under the credit facility and certain other secured indebtedness, liabilities and obligations of the Company (“bank debt”), “total debt” means generally bank debt plus any other indebtedness of the Company, and “total capitalization” means generally the sum of the Company’s shareholders’ equity and all other indebtedness of the Company including bank debt, all determined on a consolidated basis in accordance with GAAP.

Cash Flow

A summary of the reconciliation of cash flow from operating activities (per the statements of cash flow), to cash flow, is set forth below:

(000s)	Three Months Ended March 31,	
	2014	2013
Cash flow from operating activities (per GAAP)	\$ 249,390	\$ 93,763
Change in non-cash operating working capital	3,197	22,836
Cash flow	\$ 252,587	\$ 116,599

Operating Netback

Operating netback is calculated on a per-boe basis and is defined as revenue (excluding processing income) less royalties, transportation costs and operating expenses, as shown below:

(\$/boe)	Three Months Ended March 31,	
	2014	2013
Revenue, excluding processing income	\$ 37.84	\$ 28.33
Royalties	(3.31)	(1.84)
Transportation costs	(1.66)	(2.02)
Operating expenses	(4.93)	(4.27)
Operating netback	\$ 27.94	\$ 20.20

Working Capital (Adjusted for the Fair Value of Financial Instruments)

A summary of the reconciliation of working capital to working capital (adjusted for the fair value of financial instruments) is set forth below:

(000s)	As at		As at	
	March 31, 2014		December 31, 2013	
Working capital (deficit)	\$	(255,240)	\$	(245,314)
Fair value of financial instruments – short-term liability		7,146		2,691
Working capital (deficit) (adjusted for the fair value of financial instruments)	\$	(248,094)	\$	(242,623)

Net Debt

A summary of the reconciliation of net debt is set forth below:

(000s)	As at March 31, 2014	As at December 31, 2013
Bank debt	\$ (570,500)	\$ (590,319)
Working capital (deficit)	(255,240)	(245,314)
Fair value of financial instruments – short-term liability	7,146	2,691
Net debt	\$ (818,594)	\$ (832,942)

SELECTED QUARTERLY INFORMATION

	2014	2013				2012		
(\$000s, unless otherwise noted)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
PRODUCTION								
Natural gas (mcf)	47,339,926	41,062,993	36,486,443	34,477,391	33,055,857	27,879,639	23,501,484	24,276,149
Oil and NGL(bbls)	1,340,699	1,076,395	735,727	640,001	667,907	618,483	515,157	596,992
Oil equivalent (boe)	9,230,686	7,920,228	6,816,800	6,386,233	6,177,216	5,265,090	4,432,071	4,643,016
Natural gas (mcf/d)	525,999	446,337	396,592	378,872	367,287	303,040	255,451	266,771
Oil and NGL (bbls/d)	14,897	11,700	7,997	7,033	7,421	6,723	5,600	6,560
Oil equivalent (boe/d)	102,563	86,089	74,096	70,178	68,636	57,230	48,175	51,022
FINANCIAL								
Revenue, net of royalties	317,336	219,069	167,138	180,505	161,124	134,864	91,863	105,567
Cash flow from operating activities	249,390	128,852	128,192	128,432	93,763	104,671	66,713	42,566
Cash flow ⁽¹⁾	252,587	160,732	120,560	128,870	116,599	93,807	63,515	61,121
Per diluted share	1.28	0.83	0.64	0.68	0.64	0.54	0.38	0.37
Net earnings (loss)	89,868	56,763	9,163	30,004	52,184	16,301	(4,770)	1,012
Per basic share	0.47	0.30	0.05	0.16	0.29	0.10	(0.03)	0.01
Per diluted share	0.45	0.29	0.05	0.16	0.29	0.09	(0.03)	0.01
Total assets	5,082,535	4,696,471	4,210,171	3,811,192	3,735,641	3,580,253	2,992,552	2,862,502
Working capital (deficit)	(255,240)	(245,314)	(206,250)	(50,851)	(165,385)	(98,913)	(98,184)	(15,311)
Working capital (deficit)(adjusted for the fair value of financial instruments) ⁽¹⁾	(248,094)	(242,623)	(204,507)	(53,676)	(166,049)	(103,727)	(101,577)	(19,809)
Cash capital expenditures	466,396	497,941	468,261	158,751	190,463	296,108	175,277	53,831
Total outstanding shares (000s)	195,567	189,805	184,621	184,175	183,408	174,813	165,678	160,459
PER UNIT								
Natural gas (\$/mcf)	5.38	3.84	3.30	3.92	3.50	3.29	2.52	2.23
Oil and NGL (\$/bbl)	70.49	71.83	91.65	87.06	88.75	83.28	83.34	77.75
Revenue (\$/boe)	37.84	29.69	27.58	29.88	28.33	27.18	23.04	21.64
Operating netback (\$/boe) ⁽¹⁾	27.94	21.29	18.59	21.28	20.20	19.17	15.68	14.22

⁽¹⁾ See Non-GAAP Financial Measures.

The oil and gas exploration and production industry is cyclical in nature. The Company's financial position, results of operations and cash flows are principally impacted by production levels and commodity prices, particularly natural gas prices.

Overall, the Company has had continued annual growth over the last two years summarized in the table above. The Company's average annual production has increased from 50,804 boe per day in 2012 to 74,796 boe per day in 2013 and 102,563 boe per day in the first three months of 2014. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flows from operating activities were \$273.5 million in 2012 and \$479.2 million in 2013. Estimated 2014 cash flows from operating activities (based on the first three months annualized) are \$997.6 million, due mainly to strong growth in production levels and strengthening commodity prices. Commodity price changes can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenues and cash flows available for exploration, and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flows generated from operations and access to capital markets.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(000s) (unaudited)

March 31, 2014 December 31, 2013

Assets

Current assets:

Accounts receivable	\$ 160,636	\$ 136,041
Prepaid expenses and deposits	5,482	6,918
Fair value of financial instruments (note 3)	5	166
Total current assets	166,123	143,125
Fair value of financial instruments (note 3)	16	663
Long-term asset	2,307	2,373
Exploration and evaluation assets (notes 4 and 5)	740,683	700,525
Property, plant and equipment (note 5)	4,173,406	3,849,785
Total Assets	\$ 5,082,535	\$ 4,696,471

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 414,212	\$ 385,582
Fair value of financial instruments (note 3)	7,151	2,857
Total current liabilities	421,363	388,439
Bank debt (note 7)	570,500	590,319
Long-term obligation	2,483	3,414
Fair value of financial instruments (note 3)	6,380	5,216
Decommissioning obligations (note 6)	82,845	76,037
Deferred taxes	295,652	265,025
Shareholders' equity:		
Share capital (note 9)	3,300,866	3,062,432
Non-controlling interest (note 8)	18,545	17,877
Contributed surplus	98,039	91,718
Retained earnings	285,862	195,994
Total shareholders' equity	3,703,312	3,368,021
Total Liabilities and Shareholders' Equity	\$ 5,082,535	\$ 4,696,471

Commitments (note 12)

Subsequent events (notes 3 and 13)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Three Months Ended March 31,

(000s) except per-share amounts (unaudited)

	2014	2013
Revenue:		
Oil and natural gas sales	\$ 377,768	\$ 172,491
Royalties	(30,564)	(11,363)
Net revenue from oil and natural gas sales	347,204	161,128
Realized gain (loss) on financial instruments	(28,501)	2,496
Unrealized loss on financial instruments (note 3)	(6,266)	(3,819)
Other income	4,899	1,319
Total net revenue	317,336	161,124
Expenses:		
Operating	45,489	26,367
Transportation	15,329	12,470
General and administration	5,310	4,941
Share-based payments	6,701	3,590
(Gain) on divestitures	–	(44,187)
Depletion, depreciation and amortization	115,535	81,423
Total expenses	188,364	84,604
Income from operations	128,972	76,520
Finance expenses	5,478	4,498
Income before taxes	123,494	72,022
Deferred taxes	32,958	19,593
Net income and comprehensive income before non-controlling interest	90,536	52,429
Net income and comprehensive income attributable to:		
Shareholders of the Company	89,868	52,184
Non-controlling interest (note 8)	668	245
	\$ 90,536	\$ 52,429
Net income per share attributable to common shareholders (note 10)		
Basic	\$ 0.47	\$ 0.29
Diluted	\$ 0.45	\$ 0.29

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s) (unaudited)

	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2013	\$ 3,062,432	\$ 91,718	\$ 195,994	\$ 17,877	3,368,021
Issue of common shares (note 9)	219,222	–	–	–	219,222
Share issue costs, net of tax	(6,923)	–	–	–	(6,923)
Share-based payments	–	6,701	–	–	6,701
Capitalized share-based payments	–	6,701	–	–	6,701
Options exercised (note 9)	26,135	(7,081)	–	–	19,054
Income attributable to common shareholders	–	–	89,868	–	89,868
Income attributable to non-controlling interest	–	–	–	668	668
Balance at March 31, 2014	\$ 3,300,866	\$ 98,039	\$ 285,862	\$ 18,545	3,703,312

(000s) (unaudited)

	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2012	\$ 2,599,614	\$ 70,923	\$ 47,880	\$ 16,298	2,734,715
Issue of common shares	226,564	–	–	–	226,564
Share issue costs, net of tax	(7,175)	–	–	–	(7,175)
Share-based payments	–	3,590	–	–	3,590
Capitalized share-based payments	–	3,590	–	–	3,590
Options exercised	33,053	(9,089)	–	–	23,964
Income attributable to common shareholders	–	–	52,184	–	52,184
Income attributable to non-controlling interest	–	–	–	245	245
Balance at March 31, 2013	\$ 2,852,056	\$ 69,014	\$ 100,064	\$ 16,543	3,037,677

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended March 31,	
	2014	2013
Cash provided by (used in):		
Operations:		
Net income	\$ 89,868	\$ 52,184
Items not involving cash:		
Depletion, depreciation and amortization	115,535	81,423
Accretion	538	391
Share-based payments	6,701	3,590
Deferred taxes	32,958	19,593
Unrealized loss on financial instruments	6,266	3,819
(Gain) on divestitures	–	(44,187)
Non-controlling interest	668	245
Decommissioning expenditures	53	(459)
Changes in non-cash operating working capital	(3,197)	(22,836)
Total cash flow from operating activities	249,390	93,763
Financing:		
Issue of common shares	238,276	257,124
Share issue costs	(9,254)	(9,566)
Decrease in bank debt	(19,819)	(202,362)
Total cash flow from financing activities	209,203	45,196
Investing:		
Exploration and evaluation	(63,492)	(26,861)
Property, plant and equipment	(402,319)	(239,097)
Property acquisitions	(585)	(2,450)
Proceeds from divestitures	–	77,945
Net repayment of long-term obligation	(865)	(932)
Changes in non-cash investing working capital	8,668	52,436
Total cash flow from investing activities	(458,593)	(138,959)
Changes in cash	–	–
Cash, beginning of period	–	–
Cash, end of period	\$ –	\$ –

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2014 and for the three months ended March 31, 2014 and 2013

(tabular amounts in thousands of dollars, unless otherwise noted) (unaudited)

Corporate Information:

Tourmaline Oil Corp. (the “Company”) was incorporated under the laws of the Province of Alberta on July 21, 2008. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas properties. These interim condensed consolidated financial statements reflect only the Company’s proportionate interest in such activities.

The Company’s registered office is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1.

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These unaudited interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2013.

The accounting policies and significant accounting judgments, estimates, and assumptions used in these unaudited interim condensed consolidated financial statements are consistent with those described in Notes 1 and 2 of the Company’s consolidated financial statements for the year ended December 31, 2013, except as detailed below.

On January 1, 2014, the Company adopted IFRIC 21, which addresses payments to government bodies. There was no impact on the Company as a result of adopting the new standard.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 7, 2014.

2. DETERMINATION OF FAIR VALUE

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Measurement:

Tourmaline classifies the fair value of transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

3. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2013.

As at March 31, 2014, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. As a result, all such commodity contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income and comprehensive income.

The Company has the following financial derivative contracts in place as at March 31, 2014⁽¹⁾:

		2014	2015	2016	2017	2018	Fair Value (000s)
Gas							
Fixed price	mmbtu/d	47,236	5,000	–	–	–	\$ (4,316)
	USD\$/mmbtu	\$4.14	\$4.21				
Nymex call options (writer)	mmbtu/d	–	–	–	20,000	20,000	(5,135)
	USD\$/mmbtu				\$5.00	\$5.00	
Oil							
Financial swaps	bbls/d	1,098	474	–	–	–	(614)
	USD\$/bbl	\$95.95	\$91.77				
Costless collars	bbls/d	1,100	1,000	–	–	–	(1,548)
	USD\$/bbl	\$80.91 - \$97.57	\$80.00-\$95.18				
Financial call swaptions ⁽²⁾	bbls/d	–	600	400	–	–	(665)
	USD\$/bbl		\$104.98	\$91.10			
Total fair value							\$ (12,278)

⁽¹⁾The volumes and prices reported are the weighted average volumes and prices for the period.

⁽²⁾This is a European swaption whereby the Company provides the option to extend an oil swap into the period subsequent to the call date.

The Company has entered in to the following financial derivative contracts subsequent to March 31, 2014:

Type of Contract	Quantity	Time Period	Contract Price
Costless collar - Oil	300 bbls/d	January – December 2015	USD\$85.00/bbl floor USD\$91.35/bbl ceiling

The Company has the following interest rate swap arrangements:

Term	Type (Floating to Fixed)	Amount (000s)	Company Fixed Interest Rate (%)	Counter Party Floating Rate Index	Fair Value (000s)
May 29, 2012 – May 29, 2014	Swap	\$ 150,000	1.35%	Floating Rate	\$ (33)
May 29, 2014 – May 29, 2015	Swap	\$ 150,000	1.72%	Floating Rate	(756)
May 29, 2014 – May 29, 2015	Swap	\$ 100,000	1.27%	Floating Rate	(58)
May 29, 2015 – May 29, 2016	Swap	\$ 250,000	1.645%	Floating Rate	(385)
Total fair value					\$ (1,232)

The following table provides a summary of the unrealized losses on financial instruments for the three months ended March 31, 2014 and 2013:

(000s)	Three Months Ended March 31,	
	2014	2013
Unrealized loss on financial instruments	\$ (6,266)	\$ (3,819)

As at March 31, 2014, if the future strip prices for oil were \$1.00/bbl higher and prices for natural gas were \$0.10/mcf higher, with all other variables held constant, after-tax earnings would have been \$3.6 million (March 31, 2013 - \$1.7 million) lower. An equal and opposite impact would have occurred to unrealized gain (loss) and the fair value of the derivative contracts liability if oil prices were \$1.00/bbl lower and gas prices were \$0.10/mcf lower. In addition to the financial commodity contracts discussed above, the Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements.

The Company has the following physical contracts in place at March 31, 2014⁽¹⁾:

		2014	2015	2016	2017	2018
Gas						
Fixed price - AECO	mcf/d	168,281	42,474	1,166	–	–
	CAD\$/mcf	\$4.11	\$4.25	\$4.06		
Basis differentials ⁽²⁾	mmbtu/d	81,109	51,233	48,333	20,000	20,000
	USD\$/mmbtu	\$(0.49)	\$(0.48)	\$(0.48)	\$(0.49)	\$(0.49)
AECO call options (writers/call swaptions) ⁽³⁾	mcf/d	22,861	41,552	34,136	37,928	14,223
	CAD\$/mcf	\$4.28	\$4.55	\$4.85	\$4.67	\$4.64

⁽¹⁾ Transactions with common terms have been aggregated and presented at the weighted average price.

⁽²⁾ Tourmaline also has 20 mmcf/d of Nymex-AECO basis differentials at \$0.49 from 2019-2022.

⁽³⁾ A financial call swaption is a European swaption whereby the Company provided the option to extend a gas swap into the period subsequent to the call date.

The Company has entered into the following physical contracts subsequent to March 31, 2014⁽¹⁾:

Type of Contract	Quantity	Time Period	Contract Price
Fixed price - AECO	25,000 GJs/d	November 2014 – March 2015	CAD\$4.730/gj average
Fixed price - AECO	25,000 GJs/d	January – December 2015	CAD\$4.156/gj average

⁽¹⁾ Transactions with common terms have been aggregated and presented as the weighted average price.

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2013	\$	700,525
Capital expenditures		63,492
Transfers to property, plant and equipment (note 5)		(16,100)
Acquisitions		336
Expired mineral leases		(7,570)
As at March 31, 2014	\$	740,683

Exploration and evaluation (“E&E”) assets consist of the Company’s exploration projects which are pending the determination of proven and probable reserves, as well as undeveloped land. Additions represent the Company’s share of costs on E&E assets during the year.

5. PROPERTY, PLANT AND EQUIPMENT (“PP&E”)

Cost

(000s)

As at December 31, 2013	\$	4,664,800
Capital expenditures		409,020
Transfers from exploration and evaluation (note 4)		16,100
Change in decommissioning liabilities (note 6)		6,164
Acquisitions		302
As at March 31, 2014	\$	5,096,386

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2013	\$	815,015
Depletion, depreciation and amortization expense		107,965
As at March 31, 2014	\$	922,980

Net Book Value

(000s)

As at December 31, 2013	\$	3,849,785
As at March 31, 2014	\$	4,173,406

Future development costs for the three months ended March 31, 2014 of \$3,501 million were included in the depletion calculation million (December 31, 2013 - \$3,197 million).

Capitalization of G&A and Share-Based Payments

A total of \$4.4 million in G&A expenditures have been capitalized and included in E&E and PP&E assets for the three months ended March 31, 2014 (December 31, 2013 – \$15.0 million). Also included in E&E and PP&E are non-cash share-based payments of \$6.7 million (December 31, 2013 - \$19.3 million).

Impairment Assessment

The Company has performed an impairment assessment of its property, plant, and equipment on a CGU basis and has determined that there are no indicators of impairment at March 31, 2014; therefore an impairment test was not performed. Similarly, for the year ended December 31, 2013, the Company did not identify any impairment indicators and as a result did not conduct an impairment test.

6. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately \$123.5 million (December 31, 2013 – \$118.9 million), with some abandonments expected to commence in 2021. A risk-free rate of 2.96% (December 31, 2013 – 3.24%) and an inflation rate of 2.0% (December 31, 2013 – 2.0%) were used to calculate the fair value of the decommissioning obligations.

(000s)		As at March 31, 2014		As at December 31, 2013
Balance, beginning of period	\$	76,037	\$	64,757
Obligation incurred		2,795		10,193
Obligation incurred on property acquisitions		53		7,347
Obligation divested		–		(960)
Obligation settled		53		(2,254)
Accretion expense		538		2,038
Change in future estimated cash outlays		3,369		(5,084)
Balance, end of period	\$	82,845	\$	76,037

7. BANK DEBT

The Company has a covenant-based bank credit facility in place with a syndicate of bankers, the details of which are described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2013. The facility has a limit of \$900 million with an initial maturity of June 2016.

As at March 31, 2014, the Company's bank debt balance was \$570.5 million (December 31, 2013 - \$590.3 million). In addition, the Company has outstanding letters of credit of \$1.8 million (December 31, 2013 - \$2.2 million), which reduce the credit available on the facility. The average effective interest rate for the three months ended March 31, 2014 was 3.06% (three months ended March 31, 2013 – 3.29%). As at March 31, 2014, the Company is in compliance with all debt covenants.

8. NON-CONTROLLING INTEREST

The Company owns 90.6 percent of Exshaw Oil Corp., a private company engaged in oil and gas exploration in Canada. A reconciliation of the non-controlling interest is provided below:

(000s)		As at March 31, 2014		As at December 31, 2013
Balance, beginning of period	\$	17,877	\$	16,298
Share of subsidiary's net income for the period		668		1,579
Balance, end of period	\$	18,545	\$	17,877

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

Unlimited number of non-voting Preferred Shares, issuable in series.

(b) Common Shares Issued

(000s) except per-share amounts	As at March 31, 2014		As at December 31, 2013	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	189,804,864	\$ 3,062,432	174,813,059	\$ 2,599,614
For cash on public offering of common shares ⁽¹⁾⁽²⁾⁽³⁾	4,615,198	219,222	9,275,000	343,881
For cash on public offering of flow-through common shares ⁽¹⁾⁽²⁾	–	–	1,760,000	67,218
For cash on exercise of stock options	1,146,475	19,054	3,956,805	47,023
Contributed surplus on exercise of stock options	–	7,081	–	17,819
Share issue costs	–	(9,254)	–	(17,633)
Tax effect of share issue costs	–	2,331	–	4,510
Balance, end of period	195,566,537	\$ 3,300,866	189,804,864	\$ 3,062,432

⁽¹⁾ On March 12, 2013, the Company issued 5.78 million common shares at a price of \$34.25 per share and 0.835 million flow-through common shares at a price of \$42.15 per share, for total gross proceeds of \$233.2 million. The implied premium on the flow-through common shares was determined to be \$6.6 million or \$7.90 per share. A total of 30,000 common and 85,000 flow-through common shares were purchased by insiders. As at December 31, 2013, the Company had spent the full committed amount and the expenditures were renounced to investors in February 2014 with an effective renunciation date of December 31, 2013.

⁽²⁾ On October 8, 2013, the Company issued 3.495 million common shares at a price of \$41.75 per share and 0.925 million flow-through common shares at a price of \$51.60 per share, for total gross proceeds of \$193.6 million. The implied premium on flow-through common shares was determined to be \$9.1 million or \$9.85 per share. A total of 45,000 common shares and 75,000 flow-through common shares were purchased by insiders. As at December 31, 2013, the Company had spent the full committed amount. The expenditures were renounced to investors in February 2014 with an effective renunciation date of December 31, 2013.

⁽³⁾ On February 12, 2014, the Company issued 4.615 million common shares at a price of \$47.50 per share for total gross proceeds of \$219.2 million. A total of 15,198 common shares were purchased by insiders.

10. EARNINGS PER SHARE

Basic earnings-per-share was calculated as follows:

	Three Months Ended March 31,	
	2014	2013
Net earnings for the period (000s)	\$ 89,868	\$ 52,184
Weighted average number of common shares – basic	192,791,721	176,986,036
Earnings per share – basic	\$ 0.47	\$ 0.29

Diluted earnings-per-share was calculated as follows:

	Three Months Ended March 31,	
	2014	2013
Net earnings for the period (000s)	\$ 89,868	\$ 52,184
Weighted average number of common shares – diluted	197,932,293	181,774,427
Earnings per share – fully diluted	\$ 0.45	\$ 0.29

There were 3,823,000 options excluded from the weighted-average share calculation for the three months ended March 31, 2014 because they were anti-dilutive (March 31, 2013 – 2,322,333).

11. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 19,556,654 shares of common stock. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is five years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

	Three Months Ended March 31,			
	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	16,028,651	\$ 27.95	15,325,232	\$ 19.87
Granted	375,000	46.97	260,000	35.45
Exercised	(1,146,475)	16.62	(1,979,883)	12.10
Forfeited	(18,889)	30.11	(28,333)	25.27
Stock options outstanding, end of period	15,238,287	\$ 29.27	13,577,016	\$ 21.27

The weighted average trading price of the Company's common shares was \$48.49 during the three months ended March 31, 2014 (March 31, 2013 - \$35.12).

The following table summarizes stock options outstanding and exercisable at March 31, 2014:

Range of Exercise Price	Number Outstanding at Period End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Period End	Weighted Average Exercise Price
\$10.00 - \$18.35	4,127,582	0.89	\$ 15.40	4,127,582	\$ 15.40
\$20.68 - \$29.93	3,618,374	2.65	26.86	2,093,868	27.15
\$30.76 - \$39.57	2,949,331	3.50	32.95	935,664	31.81
\$40.18 - \$48.99	4,543,000	4.47	41.39	–	–
	15,238,287	2.88	\$ 29.27	7,157,114	\$ 20.98

The fair value of options granted during the three month period ended March 31, 2014 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	March 31, 2014	March 31, 2013
Fair value of options granted (weighted average)	\$ 16.63	\$ 12.29
Risk-free interest rate	3.08%	2.55%
Estimated hold period prior to exercise	4 years	4 years
Expected volatility	40%	40%
Forfeiture rate	2%	2%
Dividend per share	\$ 0.00	\$ 0.00

12. COMMITMENTS

In the normal course of business, the Company is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

Payments Due by Year (000s)	1 Year	2-3 Years	4-5 Years	> 5 Years	Total
Operating leases	\$ 3,698	\$ 9,865	\$ 10,162	\$ 4,934	\$ 28,659
Firm transportation and processing agreements	69,884	312,506	178,758	394,998	956,146
Bank debt ⁽¹⁾	–	612,866	–	–	612,866
	\$ 73,582	\$ 935,237	\$ 188,920	\$ 399,932	\$ 1,597,671

⁽¹⁾ Includes interest expense at an annual rate of 3.06% being the rate applicable to outstanding bank debt at March 31, 2014.

13. SUBSEQUENT EVENTS

On April 24, 2014, the Company closed the acquisition of Santonia Energy Inc. (“Santonia”) with the issuance of 3.228 million Tourmaline shares with a closing price on that date of \$54.94 per Tourmaline share, for consideration of \$177.4 million.